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January 4, 2023

MEMORANDUM

TO: The Chairman and Members of the Commission

FROM: Pamela Knotts, Senior Policy Advisor

SUBJECT: IN THE MATTER OF THE PROVISION OF STANDARD OFFER SUPPLY TO
RETAIL CONSUMERS IN THE SERVICE TERRITORY OF DELMARVA
POWER & LIGHT COMPANY
(FILED AUGUST 19, 2022) PSC DOCKET NO. 22-0703

On August 19, 2022, Delmarva Power & Light Company (“Delmarva”) filed with the Commission documents pertaining to the Request for Proposals and the Full Requirements Service Agreement (“FSA”) for Standard Offer Supply (the “Filing”) to change dates as well as make other changes to the documents regarding the upcoming Delmarva 2023 Standard Offer Service (“SOS”) procurement cycle and process.

Background

In Order No. 10099, dated September 14, 2022, the Commission approved, among other revisions, in Section 7.1(h) of the FSA the continued use of a capacity proxy price for the Tranche 1 auction for the Delivery Year 2024-2025 (“DY 24/25”) since PJM Interconnection, LLC (“PJM”) was planning to delay its Base Residual Auction (“BRA”) until December 2022.

The proxy price suppliers used in their bids for the Residential and Small Commercial & Industrial class (“RSCI”)¹ was \$69.53/MW-day. This was based on the same methodology the

¹ The RSCI two-year contracts start for the delivery year beginning June 2023 through May 2025.

Commission approved previously.² For each month in the contract term, the supplier will be credited, or charged, the difference between the proxy price and the actual capacity price for the Delmarva zone beginning in DY 24/25.

On December 13, 2022, PJM's BRA for DY 24/25 closed but the auction prices were not published due to the results not reflecting actual supply and demand. On December 23, 2022 PJM made two filings with the Federal Energy Regulatory Commission ("FERC").

PJM's first filing was one revision³, which would allow PJM to make corrections under certain conditions during the auction process to ensure an accurate Locational Deliverability Area ("LDA") Reliability Requirement in clearing the auctions. Without the revisions requested, for the 2024/2025 BRA, the LDA (Delmarva Power & Light South ["DPL-S"] zone), was overstated by more than four times of what the clearing price should have been.

PJM's second filing⁴ stated that absent the proposed changes in the first filing, the auction would result in an unjust and unreasonable outcome by causing the procurement of more capacity than what is needed to meet the area's actual reliability needs, and that this would result in a mismatch with prices not reflecting the actual reliability requirements of the LDA.

Staff Recommendation

Since FERC may not rule on these filings until after Delmarva's Tranche 2, which is scheduled for January 30, 2023, Staff recommends the Commission approve a capacity proxy price of \$69.53/MW-day to be used by the wholesale suppliers in their bids for the Tranche 2 auctions for Residential and Small Commercial and Industrial ("RSCI") customers for DY 24/25 if the Delmarva zonal capacity price for 2024-25 BRA is not known at the time of the Tranche 2 and Tranche 3 auctions.

As stated above, this capacity proxy price is the same as used in the Tranche 1 auctions for the RSCI customers. For each month in the contract term, the supplier will be credited, or charged, the difference between the proxy price and the actual capacity price for the Delmarva

² See Order No. 10099, dated Sept. 14, 2022; Order No. 9925, dated Dec. 1, 2021; Order No. 9838, dated July 14, 2021; and Order No. 9612, dated June 17, 2020. The Base Residual Auction for DY 2023 resulted in a Adjusted Preliminary Zonal Capacity Price of \$56.57/MW-Day and the 3rd Incremental Auction for DY 2022 resulted in a Final Zonal Net Load Price of \$97.93/MW-Day. The Capacity proxy price was based on the average of PJM's two most recent capacity auctions multiplied by a factor of 0.9 which results in a capacity proxy price of \$69.53/MW-Day

³ FERC Docket No. ER23-729-000, dated Dec. 23, 2022

⁴ FERC Docket No. EL23-19-000, dated Dec. 23, 2022

zone beginning in DY 24/25. The wholesale supplier will be paid the actual capacity price, no more and no less, for the load served. A reconciliation between the proxy and the actual capacity price will be reflected in the customer's retail rates beginning in DY 2023-24 since the capacity price will be known at that time.

Importantly, Staff recommends that if FERC rules on these filings and a capacity price for the Delmarva zone for DY 24/25 is known before Delmarva's Tranche 2 auctions take place, the wholesale suppliers will use the known zonal capacity price/MW-Day and not the capacity proxy price.